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FM AMEMBASSY RANGOON
TO RUEHC/SECSTATE WASHDC IMMEDIATE 8745
INFO RUCNASE/ASEAN MEMBER COLLECTIVE
RUEHBK/AMEMBASSY BANGKOK 2825
RUEHBJ/AMEMBASSY BEIJING 2209
RUEHBY/AMEMBASSY CANBERRA 1832
RUEHKA/AMEMBASSY DHAKA 5135
RUEHLO/AMEMBASSY LONDON 2071
RUEHNE/AMEMBASSY NEW DELHI 5306
RUEHUL/AMEMBASSY SEOUL 8906
RUEHTC/AMEMBASSY THE HAGUE 0705
RUEHKO/AMEMBASSY TOKYO 6479
RUEHCN/AMCONSUL CHENGDU 1725
RUEHCHI/AMCONSUL CHIANG MAI 2089
RUEHCI/AMCONSUL KOLKATA 0573
RHHMUNA/CDR USPACOM HONOLULU HI
RUEKJCS/Joint STAFF WASHDC
RUCNDT/USMISSION USUN NEW YORK 2300
RUEHGV/USMISSION GENEVA 4317
RUEATRS/DEPT OF TREASURY WASHDC
RUEKJCS/DIA WASHDC
RUEAIIA/CIA WASHDC
RHEHNSC/NSC WASHDC
RUEKJCS/SECDEF WASHDC

C O N F I D E N T I A L SECTION 01 OF 03 RANGOON 000142

SIPDIS

STATE FOR EAP/MLS; INR/EAP
PACOM FOR FPA;
TREASURY FOR OASIA:SCHUN

E.O. 12958: DECL: 03/06/2019
TAGS: ECON EFIN PREL PINR ELAB BM
SUBJECT: BURMA: REMITTANCES DECLINING DUE TO FINANCIAL CRISIS

REF: A. 08 RANGOON 698
1B. RANGOON 067
1C. RANGOON 084
1D. 08 CHIANG MAI 97

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Classified By: Economic Officer Samantha A. Carl-Yoder for Reasons 1.4 (b and d).

Summary

11. (C) As in many developing countries, Burmese rely on remittances from overseas -- which may have totaled upwards of USD 1 billion in FY07-08 -- to supplement incomes and make ends meet. According to unpublished data from the Central Bank, official remittances (those sent through Burmese banks) declined sharply in January 2009 from the 2008 monthly average. However, most worker remittances are sent to Burma via informal channels, and anecdotal reports from local hundi dealers also reflect a dramatic decrease -- up to 20 percent -- in informal worker remittances since January. Local economists attribute the drop to the world financial crisis, as Burmese overseas workers have experienced heavy job losses and salary cuts. Additionally, due to the dollar's depreciation against the kyat, many workers abroad may be holding onto their dollars hoping the U.S. currency will appreciate. Meanwhile, we have heard unofficial reports that as many as 300,000 Burmese workers have returned to Burma since November 2008. If this pattern continues, as many economists expect, the combination of declining remittances and the return of unemployed Burmese will place added pressure on an already strained society. End Summary.

The Value of Remittances

¶2. (SBU) Burma is one of the poorest nations in Southeast Asia; 35 percent of Burmese live below the poverty line, with more than five million experiencing food insecurity, according to the World Food Program. Most Burmese spend more than 70 percent of their salaries on food, the UNDP reports. Consequently, many Burmese families rely on remittances from workers overseas to make ends meet. According to U Soe Win, Director of financial consulting firm Myanmar Vigor and former Central Bank Governor, money is remitted to Burma in several ways: transferred officially through Myanmar Foreign Trade Bank (MFTB) and Myanmar Investment Commercial Bank (MICB); hand-carried into the country; and sent through the informal hundi system (Ref A).

¶3. (C) While the Burmese Central Bank no longer publishes remittance data, U Soe Win, using his connections at the bank, provided us with official remittance data for FY04 through FY08. According to U Soe Win, the remittance data includes not only money transferred from overseas workers, but also salaries for UN and foreign Embassy staff and pensions for Burmese who worked for international organizations. The data shows that official remittance values have increased by 240 percent since FY04, from USD 82.9 million to USD 283.6 million through January 2009. The most dramatic upturn in official remittances occurred after the September 2007 political crisis and Cyclone Nargis in May 2008, when the UN and foreign Embassies increased financial transfers to Burma.

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Official Remittance Inflows

Year	Value	Percent Change
FY04-05	82.9	----
FY05-06	112.0	35.2
FY06-07	168.3	50.0
FY07-08	243.3	44.6
FY08-09*	283.6	16.5

Source: Central Bank of Burma, February 2009

Note: Burma's fiscal year is from April 1 through March 31.

*Through January 2009

¶4. (C) While U Soe Win could not confirm exact amounts, he estimated that worker remittances accounted for approximately 40 percent of total annual official remittances. The Central Bank's official figures capture only a small fraction of overall worker remittances, however. U Soe Win notes that Burmese living overseas commonly use informal channels (aka the "hundi" system) to remit money to their families, many of whom do not have local bank accounts. Burmese prefer to use the hundi system because of their distrust of government banks and because it is more efficient and less expensive than formal remittance channels; using the hundi system enables remitters to avoid both a 10 percent tax on incoming funds and a 10 percent fee imposed on transfers by government banks. While it is impossible to know the actual value of formal and informal remittances, U Soe Win, who consults frequently with Australian Economist and Burma expert Sean Turnell, estimates that informal hundi remittances may be four times as much as official remittances, perhaps bringing the total for FY07 and FY08 to as much as USD 950 million - 1.2 billion. According to hundi dealers, the majority of informal remittances come from Burmese families and workers living overseas.

Worker Remittances Dropping

¶ 15. (C) Since January 2008 official remittances have slowed, U Soe Win commented. The average official remittance rate for July through December 2008 was USD 26 million per month, according to Central Bank data. However, in January 2009, official remittances, including UN and Embassy financial flows, totaled only USD 21.6 million. Of this amount, worker remittances through official channels were a paltry USD 1.6 million, U Soe Win told us. During the rest of FY08, Central Bank data showed that worker remittances averaged USD 9.8 million a month.

¶ 16. (C) We met with several local hundi dealers to verify if the drop in official worker remittances was mirrored in the informal sector. The owner of Tha Pyae Nu, a local business that engages in hundi dealings, commented that there was no real pattern to worker remittances -- some Burmese workers, particularly seafarers, save their money and remit it several times a year, while others with higher paying jobs send money once a month. He told us that between April and December 2008, his company remitted more than USD 3 million a month from Burmese living overseas. That said, he reported that the frequency and value of remittances handled by his firm

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dropped by 15 percent in January, he stated. Another dealer confirmed the trend, stating that more than 25 of his Burmese customers in Singapore, who send back an average of USD 500 a month, opted to not remit money last month. As there is no record of informal worker remittances, it is difficult to know whether these hundi dealers' experiences are indicative of a more general trend. However, anecdotal evidence from local economists, other hundi dealers, and business contacts indicates that informal worker remittances continue to decline.

Why the Sudden Drop?

¶ 17. (C) U Soe Win attributed the decline in worker remittances to the world financial crisis, noting that many Burmese workers in Thailand and Singapore have been laid off or have had their salaries cut. Many of our business contacts also report that their family members overseas no longer have the same job opportunities as they did before the crisis, and many Burmese are returning to Burma due to lack of work abroad. Anecdotal reports indicate that perhaps as many as 300,000 Burmese have returned since November 2008, although we are unable to corroborate these figures. The Ministry of Labor estimates that only 10,000 workers have returned to Burma (septel). The Ministry of Immigration does not keep track of returning Burmese workers, and given Burma's porous borders, it is relatively easy for Burmese to return without the GOB's awareness, U Soe Win commented. Hundi dealers noted that another possible reason for the drop may be because the continuing appreciation of the kyat against the USD (Ref B) reduces the purchasing power of remittances. U Soe Win agreed, noting that Burmese workers do not want to transfer money home because the current kyat exchange rate means their families will receive less money. He surmised that workers may save their salaries and remit them when the kyat depreciates against the dollar.

Comment

¶ 18. (C) Repatriated earnings of overseas workers are an important source of income for many Burmese families. While we are unable to verify the exact value of worker remittances, anecdotal evidence highlights several worrisome trends: remittances are dropping, overseas workers are being laid off or facing salary cuts, and many Burmese workers are returning home with few jobs available to them here. Many local economists predict that these patterns will continue, placing added pressure on an already strained society.